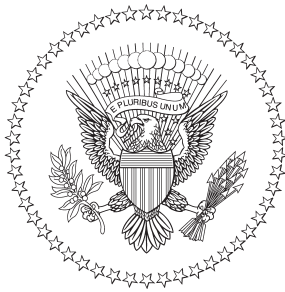


ECONOMIC REPORT OF THE PRESIDENT



TRANSMITTED TO THE CONGRESS
FEBRUARY 2011

TOGETHER WITH
THE ANNUAL REPORT
OF THE
COUNCIL OF ECONOMIC ADVISERS

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C O N T E N T S

	Page
ECONOMIC REPORT OF THE PRESIDENT	1
ANNUAL REPORT OF THE COUNCIL OF ECONOMIC ADVISERS*	9
CHAPTER 1. FROM CRISIS TO RECOVERY AND GROWTH	19
CHAPTER 2. THE YEAR IN REVIEW AND THE YEARS AHEAD	29
CHAPTER 3 THE FOUNDATIONS OF GROWTH	53
CHAPTER 4. THE WORLD ECONOMY	81
CHAPTER 5. HEALTH CARE REFORM	111
CHAPTER 6. TRANSITIONING TO A CLEAN ENERGY FUTURE	125
CHAPTER 7. SUPPORTING AMERICA' S SMALL BUSINESSES	143
REFERENCES	157
APPENDIX A. REPORT TO THE PRESIDENT ON THE ACTIVITIES OF THE COUNCIL OF ECONOMIC ADVISERS DURING 2010	165
APPENDIX B. STATISTICAL TABLES RELATING TO INCOME, EMPLOYMENT, AND PRODUCTION	179

*For a detailed table of contents of the Council's Report, see page 13.

ECONOMIC REPORT
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TO THE CONGRESS OF THE UNITED STATES:

As we begin a new year, the country is still emerging from the worst recession in generations. Across the nation, millions lost their jobs, their businesses, and their sense of security about the future. Many have had to put off their plans for a better life: going to college, buying a new home, or retiring after a long career.

At the same time, we've seen encouraging signs that the recovery is beginning to take hold. An economy that had been shrinking for a year is now growing again. After two years of job losses, our economy added more than one million private sector jobs in 2010. Yet, as we all are too well aware, the recovery is not happening fast enough. Millions of Americans—our neighbors, friends, family members—are still looking for jobs. This means that the most immediate task must be to get our fellow Americans back to work by accelerating economic growth and job creation by the private sector.

That's why, at the end of last year, I signed into law a measure to prevent taxes from rising on middle-class families and to create new incentives for businesses to create jobs. This bipartisan compromise cut payroll taxes for 155 million workers, prevented a \$3,000 tax increase from going into effect on the typical working family, and extended important tax credits to help families make ends meet and send their kids to college. The law also extended unemployment insurance, preventing 7 million Americans from losing their benefits as they look for new work, and gave businesses two powerful incentives to invest and create jobs. These were 100 percent expensing of investment expenditures and an extension of the research and experimentation tax credit.

I proposed an up-front investment in building new roads, rails, and runways to upgrade our infrastructure and create new jobs. And last month, I laid out a commonsense approach to regulation that is pragmatic,

based on evidence, and driven by data that will help lay the groundwork for economic growth and job creation while continuing to protect our health, safety, and environment. In addition, my Administration has moved aggressively to open markets abroad and boost exports of American goods and services.

These steps will help the economy this year. But it is also essential that we take stock and look to the future—to what kind of America we want to see emerge from this crisis and take shape for the generations of Americans to come.

We know what it takes to compete for the jobs and industries of our time. We know what we have to do to win the future. We need to out-innovate, out-educate, and out-build the rest of the world. We have to make America the best place on Earth to do business. We need to rein in deficits after a decade of rising debt, and reform our government. This is the way to robust and widely shared prosperity.

The first step in winning the future is encouraging American innovation. That is ultimately driven by free enterprise. But public support also plays an essential role in encouraging innovative research and development. It holds incredible promise for our future. That is why, throughout history our government has provided cutting-edge scientists and inventors with the support that they need. This is what planted the seeds for the Internet. This is what helped make possible breakthroughs like computer chips and GPS.

Two years ago, I set a goal for America: that we needed to reach a level of research and development we haven't seen since the height of the Space Race. And this year, my budget helps us meet that goal. We'll invest in biomedical research, information technology, and especially clean energy technology—an investment that will strengthen our security, protect our planet, and create countless new jobs for our people.

We've begun to reinvent our energy policy. We're telling America's scientists and engineers that if they assemble teams of the best minds in their fields, and focus on the hardest problems in clean energy, we'll fund the Apollo Projects of our time. We're doing this through investments in innovation hubs across America. These are teams of scientists focused on one difficult problem. We're also supporting the Advanced Research Projects Agency for Energy, modeled on a successful defense agency that has developed cutting-edge technologies for decades.

In addition, clean energy breakthroughs will only translate into clean energy jobs if businesses know there will be a market for what they're

selling. So in my State of the Union, I called on Congress to join me in setting a new goal: by 2035, 80 percent of America's electricity will come from clean energy sources.

The second part of our strategy is education. Over the next ten years, nearly half of all new jobs will require education that goes beyond a high school degree. And yet, as many as a quarter of our students aren't even finishing high school. The quality of our math and science education lags behind many other nations. And so the question is whether all of us—as citizens, and as parents—are willing to do what's necessary to give every child a chance to succeed.

Of course, our schools share this responsibility. When a child walks into a classroom, it should be a place of high expectations and high performance. Yet too many schools in our country don't meet this threshold test. That's why we launched a competition called Race to the Top. Race to the Top is the most meaningful reform of our public schools in a generation. For less than one percent of what we spend on education each year, it has led over 40 states to raise their standards for teaching and learning.

Next, because an increasing number of jobs require more than a high school diploma, higher education must be within reach of every American. So we've ended the taxpayer subsidies that went to banks to act as a middleman in the student loan process, and used the savings to make college affordable for millions of students. And this year, we will work to make permanent our tuition tax credit—worth \$10,000 for four years of college. We are also revitalizing America's community colleges, which will help us reach the goal I set two years ago: by the end of the decade, America will once again have the highest proportion of college graduates in the world.

The third step in winning the future is rebuilding America. To attract new businesses to our shores, we need the fastest, most reliable ways to move people, goods, and information—from high-speed rail to high-speed internet. That is why, over the last two years, we have begun rebuilding for the 21st century, a project that has meant thousands of good jobs for the hard-hit construction industry.

We will put more Americans to work repairing crumbling roads and bridges. We will make sure this is fully paid for, attract private investment, and pick projects based on what's best for the economy, not politicians. Within 25 years, our goal is to give 80 percent of Americans access to high-speed rail, which could allow you to go places in half the time it takes to travel by car. Routes in California and the Midwest are already underway.

And within the next five years, we will also make it possible for business to deploy the next generation of high-speed wireless coverage to 98 percent of all Americans.

All these investments—in innovation, education, and infrastructure—will make America a better place to do business and create jobs. But to help our companies compete, we also have to knock down barriers that stand in the way of their success.

To help businesses sell more products abroad, we set a goal of doubling our exports by 2014. My Administration has worked to knock down barriers our exporters face and advocated for U.S. exporters abroad—resulting in signing important deals to sell more American goods and services to China and India. And in December, we finalized a trade agreement with South Korea that will support at least 70,000 American jobs. This agreement has unprecedented support from business and labor, Democrats and Republicans, and I’ve asked Congress to pass it as soon as possible. Finally, we are also pursuing agreements with Panama and Colombia, and continuing our Asia Pacific and global trade talks.

To reduce barriers to growth and investment, I’ve ordered a review of government regulations. When we find rules that put an unnecessary burden on businesses, we will fix them. But I will not hesitate to create or enforce commonsense safeguards to protect the American people. That’s what we’ve done in this country for more than a century, from child labor laws to protections for our air and water. It’s why last year, we put in place consumer protections against hidden fees and penalties by credit card companies, and new rules to prevent another financial crisis. And it’s why we passed reform that finally prevents the health insurance industry from exploiting patients.

The final step in winning the future is to make sure we aren’t buried under a mountain of debt. We are living with a legacy of deficit-spending that began almost a decade ago. And in the wake of the financial crisis, some of that was necessary to keep credit flowing, save jobs, and put money in people’s pockets.

That is why in my Budget, I’ve proposed that government live within its means while investing in the future. I have promised to veto any bill that contains earmarks. I’ve proposed freezing annual domestic spending for the next five years. This would reduce the deficit by more than \$400 billion over the next decade, and will bring discretionary spending to the lowest share of our economy since Dwight Eisenhower was President.

Yet, at the same time, we cannot solve our fiscal problems on the backs of our most vulnerable citizens. And it would also be a mistake to cut the deficit by gutting our investments in innovation and education, which are so critical for our future prosperity. The fact is, priorities like education, innovation, and infrastructure have traditionally commanded bipartisan support. There are no inherent ideological differences that should prevent Democrats and Republicans from improving our economy. We are all Americans, and we are all in this race together—we can focus on what is necessary for America to win the future.

For as difficult as the times may be, the good news is that we know what the future could look like for the United States. We can see it in the classrooms that are experimenting with groundbreaking reforms, and giving children new math and science skills at an early age. We can see it in the wind farms, solar plants, and advanced battery plants that are opening across America. We can see it in the laboratories and research facilities all over this country that are churning out discoveries and turning them into new start-ups and new jobs.

Our job is simply to harness the potential that exists all across this country, and this economic report lays out the policies that will help our nation succeed by doing exactly that. In the subsequent chapters, we will look at the progress that has been made over the past year. In addition, this report will lay out many of the policies that will foster growth and make our economy more competitive. That is our great challenge today. And I am absolutely confident it is one we will meet.

A handwritten signature in black ink, appearing to be "Barack Obama", with a large, stylized "B" and a circular flourish.

THE WHITE HOUSE
FEBRUARY 2011



THE ANNUAL REPORT
OF THE
COUNCIL OF ECONOMIC ADVISERS

LETTER OF TRANSMITTAL

COUNCIL OF ECONOMIC ADVISERS
Washington, D.C., February 23, 2011

MR. PRESIDENT:

The Council of Economic Advisers herewith submits its 2011 Annual Report in accordance with the provisions of the Employment Act of 1946 as amended by the Full Employment and Balanced Growth Act of 1978.

Sincerely,

A handwritten signature in black ink, appearing to read "Austan Goolsbee".

Austan Goolsbee
Chairman

A handwritten signature in black ink, appearing to read "Cecilia Elena Rouse".

Cecilia Elena Rouse
Member